



MIZE & HOUSER
& COMPANY P.A.

AUDITOR'S COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Mayor and City Commission
City of Junction City, Kansas

We have audited the financial statements of the City of Junction City, Kansas for the year ended December 31, 2011, and have issued our report thereon dated July 12, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated, September 27, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and to express an opinion about whether the financial statements are fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

As part of our audit, we considered the internal control of the City of Junction City, Kansas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on April 17, 2012.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Junction City, Kansas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed for the year ended December 31, 2011. We noted no transactions entered into by the City of Junction City, Kansas during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

www.mizehouser.com ■ mhco@mizehouser.com

534 S Kansas Ave, Suite 700 ■ Topeka, KS 66603-3465 ■ 785.233.0536 p ■ 785.233.1078 f
534 S Kansas Ave, Suite 400 ■ Topeka, KS 66603-3454 ■ 785.234.5573 p ■ 785.234.1037 f
7101 College Blvd, Suite 900 ■ Overland Park, KS 66210-1984 ■ 913.451.1882 p ■ 913.451.2211 f
120 E Ninth ■ Lawrence, KS 66044-2682 ■ 785.842.8844 p ■ 785.842.9049 f
900 Massachusetts, Suite 301 ■ Lawrence, KS 66044-2868 ■ 785.749.5050 p ■ 785.749.5061 f

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on the straight-line method of depreciation. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We were informed that management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 12, 2012.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of the accounting principles and auditing standards, with management each year prior to retention as the City of Junction City, Kansas' auditors. However, this discussion occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the mayor, city commission and management of the City of Junction City, Kansas, and is not intended to be and should not be used by anyone other than these specified parties.

Mize Houser & Company PA

July 12, 2012



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Mayor and City Commission
City of Junction City, Kansas

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Junction City, Kansas, as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the City's internal control to be a material weakness.

The City's internal controls were not designed and implemented in a manner that provided for the safeguarding of assets, execution of transactions in accordance with management's authorization, and preparation of financial statements in accordance with GAAP. The City also had inadequate segregation of duties in several different cycles, and bank reconciliations were not reviewed by an employee other than the preparer.

The following are more detailed explanations of what is included in the material weakness described above and recommendations to correct these weaknesses.

Audit Adjustments

Many significant adjusting entries were required to correctly state account balances at year end. These adjusting entries were identified through the audit process. This was due to reconciliations of account balances not being performed by City staff. We recommend that reconciliations of all balance sheet account balances be performed in a timely manner and all necessary adjustments be posted to the general ledger.

Segregation of Duties

An important aspect of control in any accounting system is segregation of duties. During 2011, one employee performed the bank reconciliation each month and created and entered journal entries, including any line item budget adjustments. The reconciliations were not reviewed by another employee. This employee also has access to print and sign accounts payable checks before they are mailed. We recommend that all bank reconciliations be thoroughly reviewed by another employee and that the employees who have access to the signed and printed accounts payable checks not perform incompatible functions.

Another employee has the ability to create new vendors in the payables system, enters invoices to be paid, and prints signed checks. We recommend that these incompatible duties be segregated to further safeguard the assets of the City.

The approval process for the actual invoices currently includes the City Commission approving the pay ordinance. We recommend that this pay ordinance be sorted in check number order and that part of the approval process includes insuring that all checks are accounted for from one pay ordinance to another.

In addition, one employee enters new employees, performs payroll maintenance, enters and processes payroll and performs a self-review of the completed payroll register. We recommend that these incompatible duties be segregated and/or additional checks and balances be implemented into the payroll process.

Also, while examining employee files for employment compliance issues we noted that numerous items were missing from multiple files. The missing items included Form I-9 Employment Eligibility Verification Form, driver's licenses, social security cards, IRS Form W-4, and the Kansas Form K-4. We recommend the City review all employee files to verify compliance with various employment laws and regulations.

Receivable Reconciliations to the General Ledger

During the course of our audit, we were able to obtain a complete year end receivable detail but not without an extensive reconciliation process by City personnel. A number of large receivable balances were carried on the books as accounts receivable when they were in fact not collectible or were unsubstantiated. We recommend that receivable balances be reviewed and reconciled on a timely basis and uncollectible amounts be written off the books in a routine and timely fashion.

In addition, miscellaneous accounts receivable accounts should be reconciled to supporting documentation monthly and the use of the bad debt expense account should be limited to items approved as uncollectible by the appropriate members of staff.

Accounts Receivable Adjustments – Segregation of Duties

Adjustments to customer accounts can be and are recorded by employees who take cash payments from customers. One of those employees also performs the bank reconciliation that is not reviewed by another employee. We recommend that the employees with the ability to record adjustments to customer accounts not participate in the handling of cash receipts. We also recommend that a system generated report of delinquent utility billing accounts be prepared and approved by the City Commission prior to submitting the delinquent list to the State of Kansas set off program.

Purchase Order and Receiving System

Currently, the City does not use a purchase order and receiving system. A purchase order system insures that all goods acquired are in accordance with management's authority. It is our recommendation that the City adopt a true purchase order and receiving system.

The first step in the normal purchasing cycle is the specification of products or services needed, quantities needed, and delivery requirements. The basic form on which such needs are specified is the purchase requisition. A purchase order form is then used to place an order with a vendor.

The design of the purchase order must communicate the whole intent of the order as clearly and completely as possible. Once it is accepted by the vendor it constitutes a binding contract. Therefore, all terms or conditions

included on the form should be clearly defined. The purchase order should be a multi-part form. The original is sent to the vendor, if applicable. One copy is retained by the accounting department for their records. A third copy is forwarded to the purchasing department.

A receiving memo is generated by the mail room or department that receives the goods. This form records the quantity and description of items received. This form, along with the packing slip, is forwarded to the purchasing department as notice of receipt with a copy retained by receiving department.

The City has a history of miscoding expenditures to incorrect general ledger accounts. We recommend that in addition to the implementation of the purchasing system described above that the appropriate levels of management with knowledge of the chart of accounts review and approve the coding of the expenditures and note their approval on the actual invoice. We recommend that payables be recorded based on when the expenditure was incurred (date of service) rather than the date the invoice was prepared. Additionally, we recommend that the City reconcile the accounts payable per the general ledger to the subsidiary ledger on a monthly basis.

Municipal Court

The City's current policy is to shred traffic tickets sixty days after the traffic violation. The shredding of the ticket leaves a large gap in the audit trail. We recommend the City reviews its record retention policy regarding municipal court tickets. Additionally, we recommend that the City staff periodically perform reconciliation between the municipal court ticket system and a log of tickets issued which should be maintained by the police department. We also recommend that the City monitor the daily close out sheets to ensure that all receipt numbers are properly accounted for on the close out sheets. Lastly, we recommend that an individual independent of the municipal court receipting process periodically review a system generated list of outstanding cases for reasonableness.

Purchasing Cards

The City has an inordinate number of purchasing cards and the purchasing card policy of the city is not being followed on a consistent basis. We noted several instances where supporting receipts were not turned in by the cardholder, monthly transaction logs were not signed off on as being reviewed by the appropriate supervisor and department head charges were not reviewed by an individual independent of the department head. We recommend that the City enforce the purchasing card policies that have been put in place.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The City's written response to the material weakness identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended for the use of the mayor, city commission and management of Junction City, Kansas and should not be used by anyone other than these specified parties.

Migz Houser: Company PA

July 12, 2012